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**Warren D. Hannah**  
Director - Federal Regulatory Relations  
Local Telecommunications Division

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

**EX PARTE**

September 5, 1996

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W. Room 222  
Washington, D.C. 20554

RE: In the Matter of Federal-State Joint Board on Universal Service - CC  
Docket No. 96-45

Dear Mr. Caton:

On September 4, 1996, representatives of Sprint Corporation met with The Honorable Kenneth McClure of the Missouri Public Service Commission. Mr. McClure is a member of the Federal-State Joint Board in the above referenced proceeding. Representing Sprint Corporation were Messrs. Jim Sichter and Richard Lawson.

Sprint's proposals, filed on April 12, 1996, in the above referenced docket were discussed during the meeting. The attached information was used during the meeting. This ex parte notice is filed today since the meeting was held in Jefferson City, Missouri and ended during the afternoon of September 4.

It is requested that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1) of the Commission's Rules and Regulations, are provided for this purpose.

Please call on the above telephone number if there are any questions.

Sincerely,

Warren D. Hannah

Attachment

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Mr. William F. Caton  
September 5, 1996

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Mr. K. McClure, Missouri Public Service Commission, Jefferson City, MO  
Mr. J. Sichter, Sprint, Westwood, KS  
Mr. R. Lawson, Sprint, Jefferson City, MO  
Mr. J. Keithley, Sprint, Washington, D.C.

# **SPRINT'S PLAN FOR UNIVERSAL SERVICE SUPPORT**

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

September 4, 1996



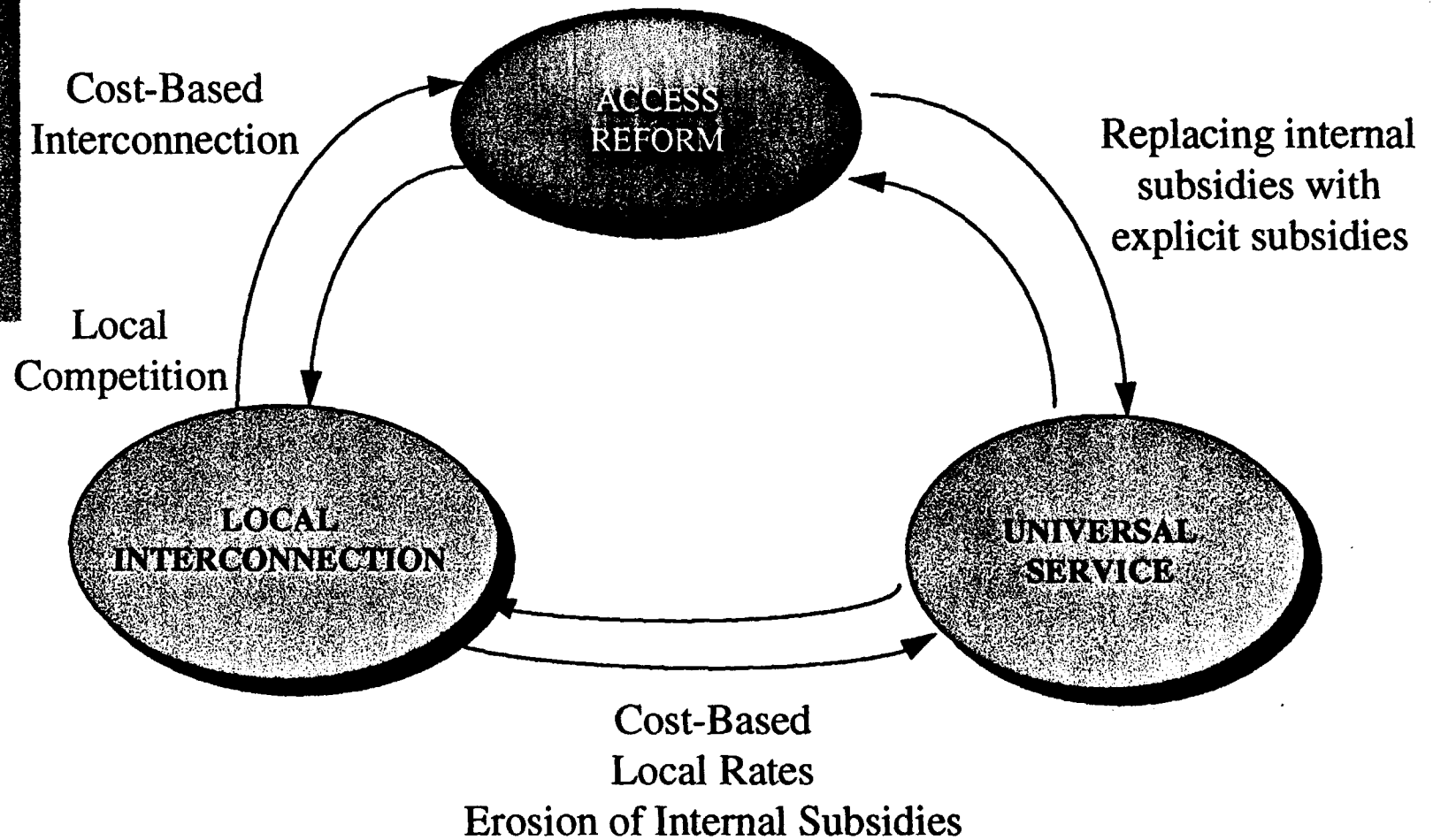
## Goals and Principles of Universal Service Support Mechanisms (Section 254(b))

- ① **QUALITY AND RATES** - Quality services should be available at just, reasonable, and affordable rates.
- ② **ACCESS TO ADVANCED SERVICES** - Access to advanced telecommunications and information services should be provided in all regions of the nation.
- ③ **ACCESS IN RURAL AND HIGH COST AREAS** - Consumers in all regions of the nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.
- ④ **EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS** - All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.
- ⑤ **SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS** - There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service.
- ⑥ **ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES** - Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).
- ⑦ **ADDITIONAL PRINCIPLES** - Such other principles as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act.

# *TELECOMMUNICATIONS ACT OF 1996*

Maintaining Universal Service Support through internal “cross subsidies” is Inconsistent with the Telecom Act, and is Incompatible with, and Unsustainable in, a Competitive Market Place

- Problems with Embedding “Subsidies” in LEC Prices
  - Neither explicit nor targeted
  - Artificially low rates (for the subsidized services) are a barrier to competitive entry
  - Artificially high rates (for the services providing the subsidy)...
    - Provide incorrect price signals to potential entrants
    - Are unsustainable



# Sustainability of Current IX Access Rates in a Competitive Environment

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- ◆ New Entrants can undermine Access Rates
  - If rate level too high (above economic costs)
  - If rate structures inefficient
    - » e.g., per MOU recovery of fixed or NTS costs
- ◆ Competitive Forces
  - Facility Based Competitors
  - Arbitrage through use of unbundled network elements

# Sustainability Example: Carrier Common Line Charge (Sprint LTD Data)

Distribution of toll usage is highly skewed

<i>Usage Segment</i>	<i>Access Lines</i>	<i>% of Total</i>	<i>CCL Revenue (Inter &amp; Intra)</i>	<i>% of Total</i>	<i>CCL Revenue Per Line</i>
<b>Residential</b>					
0	70,447	2.5%	\$0	0.0%	\$0.00
1-300	1,535,372	54.4%	\$3,591,315	16.8%	\$2.34
300-1000	939,235	33.3%	\$9,753,185	45.5%	\$10.38
1000-2000	226,939	8.0%	\$5,399,230	25.2%	\$23.79
2000-5000	50,405	1.8%	\$2,335,103	10.9%	\$46.33
5000+	<u>2,358</u>	<u>0.1%</u>	<u>\$348,841</u>	<u>1.6%</u>	<u>\$147.94</u>
Total	2,824,766	100.00%	\$21,427,694	100.0%	7.59
<b>Business</b>					
0	193,955	14.3%	\$0	0.0%	\$0.00
1-300	814,255	60.2%	\$1,355,680	12.7%	\$1.64
300-1000	235,348	17.4%	\$2,710,393	25.8%	\$11.52
1000-2000	67,702	5.0%	\$1,938,895	18.4%	\$28.64
2000-5000	31,536	2.3%	\$1,993,250	19.0%	\$63.21
5000+	<u>9,617</u>	<u>0.7%</u>	<u>\$2,534,321</u>	<u>24.1%</u>	<u>\$263.53</u>
Total	1,352,413	100.0%	\$10,512,539	100.0%	\$7.77



# Sustainability Example: Carrier Common Line Charge

## Recovery of NTS Loop Costs through per MOU Charge

- Results in high users contributing well in excess of the costs of their loops
- Providing incentive for IXC's (or CLECs) to "cap" the access costs of serving these customers by serving them through either non-ILEC facilities or resold ILEC loops

	<i>CCLC Revenue Generated by Customer</i>	<i>Unbundled Loop Cost</i>	<i>Access Savings to IXC Net Revenue gain to CLEC</i>
Residential Customer	\$46.33	\$20.00	\$26.33
Business Customer	\$63.21	\$15.00	\$48.21

# Loop Costs vs Common Line Revenue

<u>Customer</u>	<u>SLC</u>	<u>Interstate CCL</u>	<u>Intrastate CCL</u>	<u>Total Common Line Rev.</u>	<u>Loop Cost (BCM)</u>	<u>Percentage of Loop Costs Recovered from SLC/CCLC Charges</u>
A	\$6.00	\$21.52	\$14.16	\$41.68	\$9.20	453%
B	\$3.50	\$0.18	\$0.00	\$3.68	\$100.38	4%
C	\$3.50	\$1.78	\$61.11	\$66.39	\$18.77	354%
D	\$3.50	\$2.26	\$1.10	\$6.86	\$18.77	37%

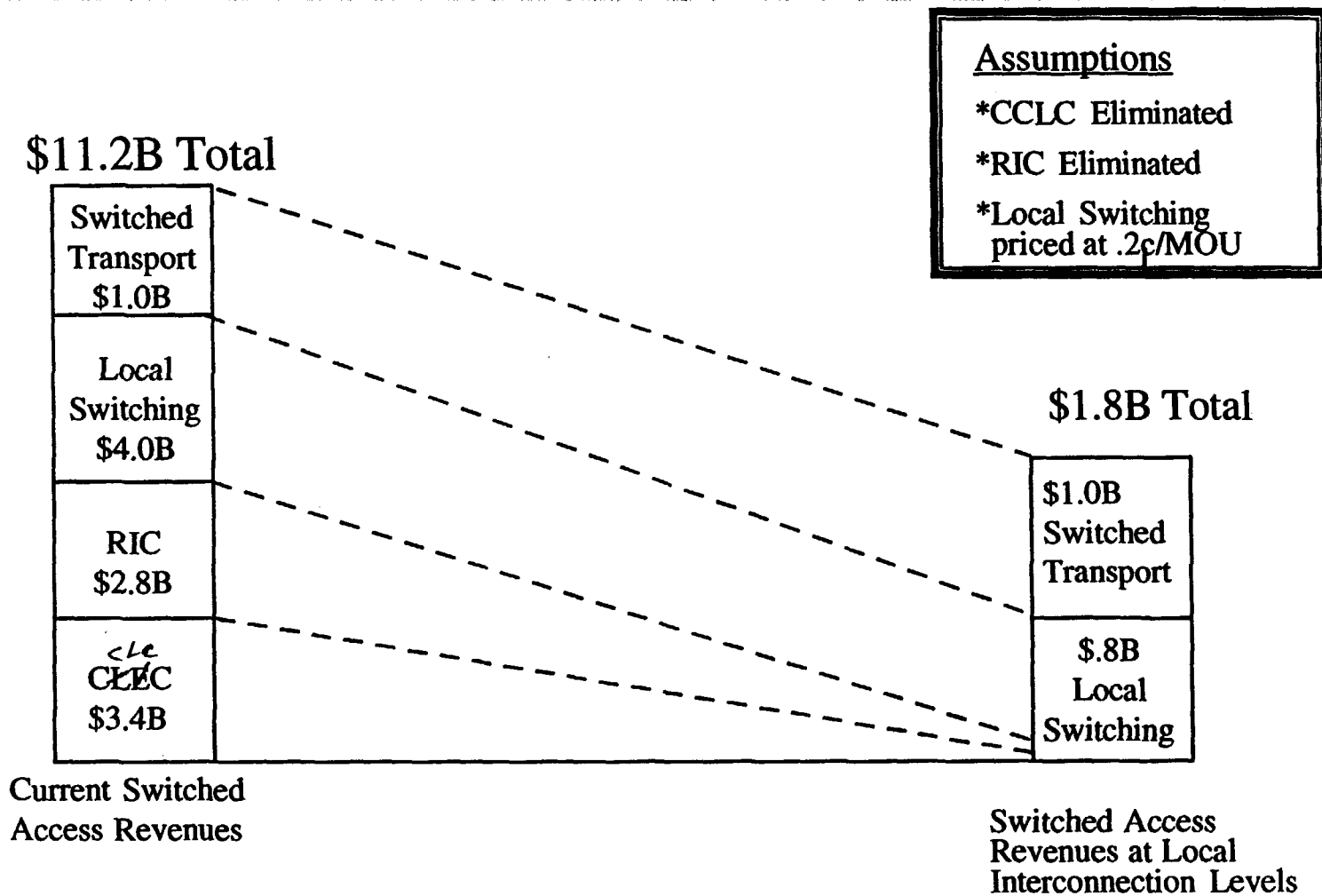
\*Actual United of Missouri customers - revenue based on 4/96 billing and usage records; cost based on benchmark cost model

# Comparison between IX Access and Local Interconnection Pricing

	<u>Loop</u>	<u>Local Switching</u>	<u>Transport</u>	<u>Transport RIC</u>
IX Access (Industry Average)	\$.00834/MOU	\$.00991/MOU	\$.00250/MOU	\$.00674/MOU
Local Interconnection •(Transport and termination)	Not included	TE-LRIC* (.2c - .4c/MOU)	TE-LRIC*	Not included

\*Per FCC 96-98 Order

# Revenue Impact of Pricing IX Access at Local Interconnection Levels (Interstate Only)



# ***SPRINT UNIVERSAL SERVICE PLAN***

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- Principles
- Services Eligible for Subsidies
- Determination of Subsidy
- Costing Standard
- Eligibility Criteria for Receiving the Subsidy
- Implementation
- Funding
- Administration of Funds

# ***SPRINT PLAN***

## ***SPRINT UNIVERSAL SERVICE PLAN -- PRINCIPLES***

### **■ Competitive Neutrality**

- Should Not Impair Competition
  - All carriers should contribute to USF on an equitable basis
- Subsidy Funding Should be Portable
  - Available to all qualified providers of local service

### **■ Specific (Targeted)**

### **■ Predictable**

### **■ Fully Replace Current Internal (Implicit) Subsidy Flows, as well as Existing Explicit Subsidy Funding**

# ***SPRINT PLAN***

## ***SERVICES ELIGIBLE FOR SUBSIDIES***

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### **■ Residential Services Only**

### **■ Initial Service Definition**

- Local Dial Tone and Ability to Make Local Calls
- Access to Chosen Long Distance Carrier
- Access to Emergency Services
- Single Party Service
- Touch Tone
- Annual Local Directory
- Directory Assistance

# ***SPRINT PLAN DETERMINATION OF SUBSIDY***

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- Income Related Subsidies
  - Lifeline, Linkup, and Other Explicit Subsidy Mechanisms to Support Low Income Subscribers Would Continue
- High Cost Area Subsidies
  - Available to Subsidize Basic Residential Service in Areas Where the Costs of Providing Service Exceed National and State Standard for “Affordable” Rate



# ***SPRINT PLAN***

## ***COSTING STANDARD FOR DETERMINING HIGH COST AREAS***

- The Benchmark Cost Model Should be the Basis for Measuring the Costs of Providing Services for USF Purposes.
  - The BCM is a Reasonable Proxy for the Economic Costs of Serving a Particular Area
- Advantages of the BCM
  - Based on Objective, Verifiable, Public Data and Accepted Network Engineering Standards
    - Cost Results not Distorted by Historic Accounting and Depreciation Policies
    - Does Not Require Arbitrary Allocations or Dissagregations of Existing Investment to Smaller Geographic Units
    - Avoids Controversy Over Whether Embedded Costs Represent “Efficient” or “Inefficient” Management

# ***SPRINT PLAN***

## ***COSTING STANDARD FOR DETERMINING HIGH COST AREAS***

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### **Advantages of the BCM (continued)**

#### **■ Competitively Neutral**

- Subsidy funding (per subscriber) will be the Same for all Service Providers
- The BCM is a Proxy for the Costs that Any Efficient Provider would Incur in Providing Service to a Particular Area
  - Subsidy Amount Not biased by an Incumbent's Embedded Costs
  - Provides Incentive for Competitive Entry into High Cost Areas
  - Provides Incentive for Efficiency
  - Provides Incentive for Innovation

# ***SPRINT PLAN***

## ***COSTING STANDARD FOR DETERMINING HIGH COST AREAS***

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### **Advantages of the BCM (continued)**

#### **■ Disaggregation of Costs By Census Block Group (CBG)**

- More Precisely Identifies Truly High Cost Areas
- Avoids Competitive distortions Inherent in Using Higher Levels of Aggregation (e.g. exchange or study area) for USF Purposes
  - Basing Subsidies on Averaged Costs will not Provide New Entrants Sufficient Incentives to Serve Those Areas Where Costs Exceed the Average (potentially leading to “cream-skimming”)

# ***SPRINT PLAN***

## ***DETERMINATION OF THE AMOUNT OF SUBSIDY***

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- The Amount of Subsidy Provided for a CBG Would be the Difference Between
  - The National Benchmark Price for Basic Residential Service (i.e., the maximum rate determined to be “reasonable” and “affordable”), and the
  - BCM-Calculated Cost For that CBG
- The National Benchmark Price Should be Set at Least at the National Average Rate for Basic Residential Service in Urban areas, Including the Existing Subscriber Line Charge.
- State USF Plans Could Use the Same Methodology to the Extent State Repricing Does Not Resolve All State-Specific Subsidies

# ***SPRINT PLAN***

## ***DETERMINATION OF THE AMOUNT OF SUBSIDY: EXAMPLE***

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Assume:

### Federal Subsidy (per Access Line)

1. BCM Cost	\$30
2. FCC Benchmark Price	\$20
3. Federal Subsidy (L1-L2)	\$10

### State Subsidy (Per Access Line)

4. State Benchmark Price	\$15
5. State Subsidy (L2-L4)	\$5

# ***SPRINT PLAN***

## ***USF FUND SIZE AT ALTERNATIVE NATIONAL BENCHMARK PRICE LEVELS***

### Summary Model Results

#### National Total

(\$)(Billions)

Annual

Benchmark Cost

\$59,252

Aggregate Support

at \$20

\$14,666

at 30

\$7,425

at 40

\$4,259

Average

Monthly Cost

\$29.98

# ***SPRINT PLAN ELIGIBILITY CRITERIA FOR RECEIVING THE FUNDING***

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- USF Funding Will be Available to Both Incumbent LECs and New Entrants
- To Qualify for USF Funding, an ETC (Eligible Telecommunications Carrier) Must:
  - Be Willing to Serve the Entire Service Area
  - Offer All of the Services that are Supported by the Fund
  - Use Their Own Facilities or a Combination of Owned Facilities and Resale of Another Carrier's Facilities
- An ETC Will Receive Support Only Where It Provides Service Either Over Its Own Facilities or Over Resold Facilities For Which It Pays Cost-Based Rates
- USF Support Should be Portable (When Subscribers Change Their Local Service Provider, the Subsidy Payment Should Then Go to the New Service Provider)

# ***SPRINT PLAN IMPLEMENTATION***

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## **■ The Expansion of USF Support Should**

- Replace Existing Implicit and Explicit Subsidies
- Be Revenue Neutral to the Incumbent LEC at Time of Implementation

## **■ Implementation Steps**

- Each Incumbent LEC Would Quantify its Net Change in USF Support (i.e., USF Support Under the New Plan Less USF Support it Received Under the Existing Plan)
- The Incremental USF Funding Would Flow Through, Dollar for Dollar, in Reductions in Embedded Subsidies; e.g.,
  - CCLC
  - Transport RIC



## Example

If:	Subsidy based on	
	Nat'l Benchmark price,	\$100
	Existing USF	\$5
	Net Increase in USF	\$95

Then:	Access Subsidy Reduction	
	CCC    total CCLC Revenues = \$80	
	CCLC Revenue Reduction	\$80
	RIC    Total RIC revenues = \$20	
	RIC Revenue Reduction	\$15
	(\$95-\$80)	
	Total Access subsidy reduction	\$95